



USAID
FROM THE AMERICAN PEOPLE

KOSOVO

CLUSTER AND BUSINESS SUPPORT PROJECT

Global Development Alliance Assessment and Roadmap

Contract #AFP-I-00-03-00030-00, TO# 800

Submitted to:
USAID/Kosovo
Cognizant Technical Officer: Timothy Hammann

Submitted by:
Chemonics International Inc.

Submitted: July 29, 2005

This report was written by the KCBS team of Chemonics International Inc. based on a Final Report prepared by Short Term Technical Advisor, Mr. Stephen Schmida.

CONTENTS

Purpose of Assignment

Background

Executive Summary

Field Activities to Achieve Purpose

Task Findings and Recommendations

Conclusions and Recommendations for Future Activity

Annexes:

Annex 1 – Rani Parker’s Trip Report

The authors’ views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

PURPOSE OF ASSIGNMENT

As described in its first year work plan, KCBS engages in several activities to reach its goals of increasing sales and employment. Among these are providing sales enhancement and business consulting services to local enterprises in targeted clusters, as well as developing a vibrant and self-sustaining cadre of business associations. This scope of work is designed to enhance the project's delivery of these services by drawing on the specialist's expertise in creation and implementation of Global Development Alliances, which may leverage existing project funds to assist in the creation of more jobs and sales in project-assisted areas.

BACKGROUND

The Global Development Alliance (GDA) is USAID's commitment to change the way it implements its assistance mandate. GDA mobilizes the ideas, efforts and resources of governments, businesses and civil society by forging public-private alliances to stimulate economic growth, develop businesses and workforces, address health and environmental issues, and expand access to education and technology.

USAID considers an "alliance" to be a formal agreement between two or more parties created to jointly define and address a development problem. Alliance partners combine resources, risks and rewards in pursuit of common objectives. Alliance partners make financial and/or in-kind contributions to increase the impact and sustainability of development efforts. Their support may take many forms. Mechanisms for collaboration include parallel financing (with common objectives, clear understanding of roles and separate funding tracks) or pooled resources (with agreed upon and legally binding governance structures and common funding tracks).

Business support activities are among the many areas GDAs have been implemented in the past. Examples include assistance to handicraft producers in Mexico, transfers of information technology to Senegal, Indonesia, and Peru, increased food production in Afghanistan, and improved farming techniques in Africa

EXECUTIVE SUMMARY

Over the course of six work week days, I conducted a training and assessment on the Global Development Alliance on behalf of the Kosovo Cluster and Business Support Project (KCBS). Based on my interviews with various stakeholders, it appears that there are some limited opportunities to forge GDAs in Kosovo at this time. In particular, the road construction and decorative stone sectors appear to offer real opportunities to develop small-scale alliances that engage the Kosovar business community in joint activities.

However, this assessment is tempered by widespread market limitations and structural rigidities that must be overcome to attract international partners and structure successful agreements. These include the ambiguity of Kosovo's status, lack of economies of scale in most sectors, few local private sector partners with the capacity to engage in GDAs, and a business community whose current level of development and business environment preclude long-term strategic thinking.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

The initial portion of my visit was spent preparing for a three hour training session at the USAID Mission on GDA for Mission staff and several CoPs. The training on July 11 appears to have been well received by both the Mission and implementing partners. The second portion of my visit consisted of meetings with KCBS staff, business people, donors and business associations (see appendix for a list of all meetings), which enabled me to get a snapshot of what opportunities may be available for a Global Development Alliance in Kosovo.

The second portion of my visit consisted of meetings with KCBS staff, local and international business leaders and the donor community (see: Annex 1). The findings from my brief visit suggests that the number of private sector partners in Kosovo that possess both the resources and the strategic vision necessary to form a viable GDA are very limited. This is a major constraint and overcoming it will require some creativity and time on the part of KCBS and USAID.

TASK FINDINGS AND RECOMMENDATIONS

I am rather sanguine about the prospects for public-private alliances in Kosovo for several reasons: 1) the ambiguity of Kosovo's status precludes any major western foreign investments. 2) Kosovo is a very small domestic market with very limited purchasing power. 3) The Kosovar business community is still in the process of asset acquisition, i.e. they do not appear to be thinking strategically or about true value creation. 4) The number of non-corporate private donors (foundations, well-organized diaspora groups) partners interested in Kosovo appears limited at this stage.

Potential for Corporate Partners

Obviously, Kosovo's legal status makes any sizeable, sustained western foreign investment highly improbable in the near term. While Kosovo does have some marketable mineral and energy resources they are not in sufficient quantity for most investors to risk investing in a place that has an undetermined sovereign status. Further, Kosovo's small population, low purchasing power and isolation make it an unattractive destination for western goods. Most FMCG companies, such as P&G, Unilever and Colgate Palmolive serve the Kosovo market either from Macedonia or elsewhere in the Balkans.

This lack of investment promise is reflected in the composition of the American Chamber of Commerce of Kosovo, whose only non-Kosovar/Albanian members are a handful of USAID consulting firms and an American woman running a call center. Not even tobacco and FMCG industries (two industries quite active here judging by the kiosks) are represented in the membership. Outside of AmCham, I was introduced to representatives of the American University of Kosovo, which receives a great deal of support from Mabatex, a Swiss-Albanian construction conglomerate. While Mabatex's resources and philanthropy make it a seemingly attractive potential partner, the company was at the heart of a kickbacks and embezzlement scandal with the Yeltsin family involving hundreds of millions of dollars earmarked for refurbishing the Kremlin in Moscow. There were also rampant rumors regarding the company's extensive construction contracts in Astana – Kazakhstan's new capital. I believe the company presents a significant reputational risk and should not be considered for GDA.

The only international company that I could identify as a potential alliance partner is Raiffeisen Bank, which is enjoying considerable success since buying the American Bank of Kosovo. While the scale of Raiffeisen's operations preclude a sizable social investment at this time, it may be possible to construct an Alliance that would be attractive as an SME investment vehicle (see below).

My discussions with KCBS staff and the Kosovar business community suggest that local businesses are still in the process of asset acquisition and capital formation. Like the former Soviet Republics in the early 90s, business people are scrambling to get control of assets or acquire capital. The business environment here remains too unsettled for local businesses to be thinking strategically. Rather, they must be highly opportunistic to take advantage of what few chances there are for capital formation in the country. Until the business community has begun to progress from asset and capital acquisition to value creation, they will not begin to think strategically about how to grow their businesses, strengthen their workforce or improve their communities. Therefore, it is unlikely that Kosovar businesses are going to make significant social investments in the near-term. Over the longer-term, the local business community holds considerable promise because the combination of socialism and clan-based society suggests a high degree of paternalism. Ironically, this paternalism often leads companies in this part of the world to take a much more active and visible role in their local communities.

EAR is promoting a new industrial park scheme as well as a new business incubator. Mike Mann suggested that these might be possible avenues for partnership with European projects. I am no expert on industrial parks, but I am not sure that the industrial park model makes much sense in such a small environment as Kosovo and would be reluctant to promote it as a possible vehicle for an Alliance. The business incubator is a bit more promising, but it is not clear who could be a private sector partner because the resident firms are all start-ups and will have limited financial resources. In any event, both of these projects are already well developed and there is very little opportunity for the type of strategic partnership that AID is seeking through GDA.

Foundations

In addition to companies, there are some alternatives for Alliance resource partners outside the corporate sector, such as American and European foundations are both active in the region. The Open Society Institute is a possible partner, but this seems highly unlikely for reasons unrelated to this project. Most of the other American foundations active in the region, most notably the Charles Stewart Mott Foundation and Ford Foundation, are focused exclusively on civil society issues. There are a handful of American foundations that are focused on SME and entrepreneurship development. The Kaufmann Foundation (based in Kansas City), the Skoll Foundation (established by a founder of E-bay) and the Ashoka Foundation (based in Arlington) are all focused on promoting entrepreneurship, both domestically and internationally. Should some of the opportunities below show real promise, it might be worth establishing contacts with these foundations to see if they would be interested in partnering on efforts to promote entrepreneurship.

Diaspora

I agree with Rani's assessment regarding a potential opportunity with remittances from the Kosovar diaspora, but it is not clear to me how such a project might be best moved forward. It might be possible to try to forge some sort of partnership with MFI's such as FINCA and Grameen, both of which are present in Kosovo, but such an effort would require very substantial research into Kosovo remittance patterns.

What little I could research on formal diaspora organizations suggests that they are primarily focused on humanitarian assistance and the question of Kosovo's status. While this

emphasis is understandable, USAID may want to consider ways to begin engaging the diaspora in a discussion about the future economic development of Kosovo. In this regard, the Armenian experience may be instructive. A small group of Armenian diaspora business people established an organization called Armenia 2020 (www.armenia2020.org), which conducted McKinsey-style national scenario planning for Armenia. By bringing together the government, civil society, business (both local and diaspora), Armenia 2020 has helped forge some consensus among that country's elite and the diaspora on the future direction of the country. This, in turn, has enabled much greater and more sustained cooperation among diaspora groups and local actors. KCBS has already introduced the scenario process to develop joint public-private development planning in Kosovo. It might be worth including formal Diaspora organizations in the United States and Europe in the continuing dialog begun through KCBS' initiative.

A. Russia Connection

There are persistent rumors that the Interros Holding Company (I heard this 3 times in a week) is interested in acquiring a Kosovo mine via its Norilsk Nickel operating company. Interros is controlled by Vladimir Potanin, one of the original Russian oligarchs. Potanin has established the creatively named Vladimir Potanin Charity Fund, one of the largest sponsors of educational programs in Russia. Were Interros to make an investment, it ought to be possible to approach the Potanin Foundation in Moscow and propose some form of vocational education Alliance that would focus on workforce development around the mine site. Potanin and his foundation are well known to USG in Moscow and I do not think there should be any major reputation risks internationally (how USG partnering with the Russians would be accepted locally is a different matter). Larissa Zelkova, the Director of the Potanin Foundation, is probably the best point of initial contact in Moscow. I cannot remember whether she speaks English or not, but her colleague Yuri Chizhik (a former UNDP diplomat) speaks wonderful English. Denis Korepanov, a FSN in USAID-Moscow, should have contact information for both Yuri and Larissa.

In summary, the greatest barrier to public-private alliances in Kosovo is the absence of private resource partners. Until that factor changes, opportunities for GDAs will be limited in Kosovo. While this is a major constraint, it does not fully preclude the formation of viable GDAs in Kosovo. I was able to identify a handful of possible opportunities that would build upon the efforts of the KCBS project.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

GDA Roadmap for KCBS

Based on my conversations with KCBS staff and local business people, it appears that GDA activity in the agribusiness and wood products sector is premature at this juncture. In the case of agribusiness, Kosovo's small size and low productivity mean that the country is unlikely to be either a source or a market for large-scale agribusiness activities for some time. The situation is similar for the wood products sector. Without major domestic or foreign investment, it is difficult to see who would be the private sector partner in any Alliance because the local companies are quite small. Over time, as KCBS is successful in integrating Kosovo into the supply chains of major European foodstuffs and lumber companies, possible alliance partners may emerge.

Due to the short duration of my visit, I was unable to get to any of the minority enclaves in Kosovo. However, I was able to speak with KCBS staff about possible opportunities for GDA activity. At the present time, enclave-specific opportunities appear quite limited because of the broader economic and social challenges facing these areas. The Trepca mines (see below) could offer some opportunities to use GDA to engage the minority enclaves, but that would be in the context of a broader effort. Should there be significant investment in the Bresovitce ski resort, it may be possible to examine GDAs focused on tourism development at some point in the future.

A. Road Construction Laboratory

The Road Construction Association of Kosovo's efforts to establish a laboratory for EU quality assurance and testing represents the most promising prospect for forming a Global Development Alliance in the KCBS portfolio in the near term. The lab clearly has both a developmental objective (improved competitiveness in the road construction industry, not to mention improved road quality) and business objective for the members of the association. RCAF estimates the project cost at 240,000EUR.

When I explained the GDA concept to Eljesi Surdulli, RCAF's Executive Director, he very quickly understood the possibility for attracting GDA funding to this project, but was concerned about the 1:1 minimum funding match. I pointed out that only 25% of the match had to be privately sourced, so in this case the Association members would be responsible for approximately 30,000EUR+ if an additional, non-USAID donor could be identified. Mr. Surdulli offered to explore whether the membership could make such a contribution (as a donation, not a credit) to the establishment of the laboratory.

This would be at the very low end of the GDA parameters, but it represents the most immediate and realistic opportunity for forming a GDA in the KCBS portfolio at this time.

<u>Resource Partners</u>	<u>Resources</u>	<u>Implementing Partners</u>	<u>Alliance Objective</u>	<u>Timeline</u>
<ul style="list-style-type: none">• USAID/KCBS• RCAF Members• Bi-lateral donor	Total: 240k EUR	<ul style="list-style-type: none">• KCBS• RCAF	To stimulate growth of road construction SMEs by enabling them to work to EU standards	2-3 months to establish Alliance

Next Steps

If the Mission is supportive and RCAF believes it can come up with its portion of the matching requirement, then it probably makes sense to engage possible European funders of the lab project (EAR seems most obvious). At that point, RCAF and KCBS could prepare a concept paper under the Annual Program Statement (APS) for the GDA.

B. Trepca Mines

Clearly, the Trepca Mines offer enormous potential for Kosovo's future economic development. As the country's largest natural resource and given the politically sensitive location of many of its facilities (in the enclaves), much of Kosovo's future development will depend on the success of Trepca.

KCBS could explore with USAID establishing a Trepca Local Supplier and Workforce Development Cluster. The cluster could focus on strengthening local supplier SMEs in Kosovo with assistance in quality control, product development and credit facilitation. In addition to developing and strengthening new and existing outside suppliers, KCBS could work with Trepca management to spin out and transform the company's non-core assets into viable local suppliers. This will boost the productivity of Trepca, but it also has the potential of increasing employment because local suppliers can begin offering their goods and services to other clients in the country and regionally.

Such a cluster could be a natural magnet for a Global Development Alliance for Trepca's future owners. Trepca's owners will have a clear economic incentive to boost local suppliers and strengthen the workforce, which has been idled since 2001. For its part, KCBS could provide training and technical expertise and the new owners of Trepca could provide money, training facilities and equipment. I do not know if this is politic or not, but USAID might engage the KTA prior to the privatization on stipulating aggressive targets for locally-sourced suppliers and labor for bidders in the Trepca tender. This would provide a further incentive for the future owners to partner with the donor community on Trepca.¹

<u>Resource Partners</u>	<u>Resources</u>	<u>Implementing Partners</u>	<u>Alliance Objective</u>	<u>Timeline</u>
<ul style="list-style-type: none">• USAID/KCBS• Trepca Investor• Municipalities• Bilateral donors	Total: \$1 million+	<ul style="list-style-type: none">• KCBS• Voc Ed Schools• MFIs	To stimulate SME local supplier and workforce development in communities surrounding Trepca facilities	Depends on privatization process

¹ If the Trepca privatization moves ahead USAID could also explore developing some sort of community engagement or participation program around the mine privatization, if it does not have one already. Such an effort could help mitigate the risks of social discord caused by the privatization and could also serve as a platform for a separate civil society-focused GDA with the future owners of Trepca.

Next Steps

Assuming that the Trepca privatization is on the horizon, USAID or KCBS could commission a local supplier and workforce development baseline survey for the Trepca mine. The survey would inventory existing local supplier and map out the needs of future local supplier and workforce needs of Trepca. This could then serve as the basis for designing a Trepca cluster in anticipation of the privatization. Additionally, KCBS or USAID could also engage the KTA regarding local supplier or workforce development requirements in the forthcoming tender.

C. Decorative Stone

Should KCBS's efforts to develop Kosovo as a source for decorative stone bear fruit then it could offer some opportunities for GDA, provided a level of scale can be achieved. If a buyer were willing to put in resources for equipment, this could be matched with funds for training.

Next Steps

If Roman is successful in identifying potential buyers for the stone in Europe or Turkey, KCBS could begin discussions with the buyers on projects that would improve the quality and value-added aspects of stone-cutting here in Kosovo.

<u>Resource Partners</u>	<u>Resources</u>	<u>Implementing Partners</u>	<u>Alliance Objective</u>	<u>Timeline</u>
<ul style="list-style-type: none">• USAID/KCBS• Decorative Stone Buyers	Total: \$200k	<ul style="list-style-type: none">• KCBS• Future association of stone cutters.	To stimulate growth of decorative stone industry in Kosovo through the introduction of market skills and quality standards	2-3 months to establish Alliance once a buyer(s) has been identified.

D. Small Enterprise Equity Fund (SEEF)

KCBS and USAID could explore the establishment of a Small Enterprise Equity Fund for Kosovo as part of a GDA or even DCA activity. The Kosovo Chamber of Commerce (OEK) is already exploring the possibility of creating a fund of this nature. SEEFs typically invest in SMEs at a level substantially below traditional equity investing (including development investors such as EBRD and IFC). Typically, a SEEF will invest between \$200-\$500k for a controlling or blocking stake in a small enterprise. Like a VC fund, SEEF's take an active role in the management of portfolio companies, providing both management expertise and potential client contacts. Based on my very limited exposure to Kosovo this strikes me as a potentially useful instrument to stimulate SME growth in key sectors of the economy such as agribusiness, construction and service industries. Moreover, Oliver Whittle of Raiffeisen Bank believes that a growing number of his clients would be better served by an equity (or a mixture of equity and debt) investment rather than debt. Mr. Whittle's observation reflects the findings of KCBS' *Constraint Study* published in February, which found the near total dependence on a single loan product (three- to five-year loans collateralized with real property) has caused disruptive mismatches between capital acquisition and purpose. That

study found that Kosovo needs both alternative short- and long-term lending tools and alternatives to lending through other financial instruments.

Such funds are not cheap. They typically require \$10-\$20 million in investment capital and substantial up front due diligence and TA costs. However, if there was a need and a desire to establish such a fund, it could be possible to assemble a mixture of public and private investors to capitalize the fund, such as EBRD, Raiffeisen, IFC, local Kosovo banks and bi-lateral donors. My discussions with EAR, USAID and the American Chamber of Commerce suggest that their might be interest in creating such a mechanism in Kosovo.

Next Steps

This is a long-term prospect that would need to be explored carefully before proceeding. The Small Enterprise Assistance Fund (www.seafweb.org) is the leading organization involved in developing and managing SEEFs. According to their website, SEAF has a fund already in Macedonia. It may be worth visiting the Fund in Skopje to determine if this is an instrument that is appropriate for Kosovo. Should such a fund appear appropriate for Kosovo, it might be useful for KCBS to invite SEAF to organize a short presentation to introduce the concept to a small group of prospective donor/investors to ascertain whether or not there is sufficient interest in creating such an investment vehicle.

<u>Possible Resource Partners</u>	<u>Resources</u>	<u>Implementing Partners</u>	<u>Alliance Objective</u>	<u>Timeline</u>
<ul style="list-style-type: none"> • USAID • KCBS (TA) • IFC • Raiffeisen • EBRD • Bi-lateral donors 	Total: \$10-20 million	<ul style="list-style-type: none"> • KCBS • SEAF 	To stimulate growth of SMEs through the establishment of an SME equity fund.	<ul style="list-style-type: none"> • 2 months to introduce concept • 3 months due diligence • 4-6 months to build Alliance

It may be possible to reduce the resource requirement of \$10-20 million, by using the existing Fund in Macedonia as a vehicle via a local rep office. This would reduce overhead and also may be more appropriate given the small local market.

E. Regional Technology Center (Proterm)

The American Chamber of Commerce of Kosovo pitched a project called the Regional Technology Center (RTC), which is an initiative of Nehat Emruallahu and Pranvera Dobruna, who (I believe) are both on the AmCham's Board. The RTC is supposed to be a combined consulting, training, R&D and quality control firm focused on the mining, energy and agribusiness sectors. While there are some good ideas embedded in the concept, RTC is not a viable project (GDA or otherwise) as currently designed.

Next Steps

I do not recommend proceeding further with this effort in its present form. There are some excellent ideas in the RTC concept, but the project needs to have a more coherent focus that will create real results and have some measure of sustainability.

KOSOVO

CLUSTER AND BUSINESS SUPPORT PROJECT

Global Development Alliance Assessment and Roadmap

Annexes

Annex 1 – Rani Parker’s Trip Report

Rani Parker's Trip Report

**For USAID/Kosovo
March 21-25, 2005**

**Submitted by
A. Rani Parker**

- I. Introduction and Background
- II. Relevance of GDA for Kosovo
- III. GDA Potential in Energy
 - Rationale for alliance
 - Other options in energy
 - Next steps
- IV. Other Potential Alliances
 - Amoropa Flour Milling and Wheat Farmers
 - Dell--Call Centers/Distribution for Business Development
 - Alternative Dispute Resolution
 - Remittances
 - Proterm
- V. Recommendations/Conclusions

Appendices:

Original Scope of Work

Schedule in Pristina

Acronyms and Abbreviations

I. Introduction and Background

Kosovo USAID mission has been funding programs that enable recovery from war and transition into an independently functioning political and economic entity.

The economic growth program is already involved in significant efforts to promote small business development and to strengthen the legal and regulatory environment. While these are moving forward, there is also a realization that the strategy for growth does not address the long term. Even with success on the legal and regulatory fronts, the current program of business development may not be sufficient to support longterm economic growth in today's globalized context. Businesses in Kosovo are small and vulnerable to economies of scale that may be achieved by businesses outside. The development of energy, by contrast, offers critical potential for attracting long-term investment as well as human and scientific capital. Kosovo possesses some of the richest lignite coal ore in Europe, and some investors such as GE and AES have already made brief visits to Pristina to assess the regulatory environment.

Broader issues that frame the Kosovo context:

- Kosovo's legal status remains unresolved, although a status review in June is likely to change that.
- Land ownership claims arising from the socially-owned enterprises of the past need to be resolved.
- KEK remains publicly owned and vertically integrated.
- KEK is dependent on annual budget support from the Kosovo Consolidated Budget.
- Capital investment will require reliable electricity for business operations.

The Mission has not had direct experience with GDA to date, but is interested in exploring the relevance of a possible GDA approach for Kosovo. The consultant was asked to help the Mission think through the relevance of a GDA approach for the energy sector as well as in other areas of the Mission's work. Three factors frame the context for potential PPAs in Kosovo:

1. The FY 2004 – FY 2008 strategic plan is underway focusing on democratic self governance and sustainable economic growth through economic policy and institution development, and private sector growth through business development.
2. Second, the transition to a provisional government is still underway and Kosovo remains under United Nations supervision. Nevertheless, it is very much on the radar screen of some large companies that are interested in its natural resources. Bids are already underway for business investment to develop the Ferronikel mine, opening the door for multinational business presence in Kosovo.
3. The Mission has not determined whether and how a GDA approach would support its current strategic plan. GDA is sometimes perceived as an add-on to existing responsibilities rather than a way of garnering a variety of non-traditional partners and their human, institutional and financial resources to achieve current development goals.

II. Is GDA relevant for Kosovo at this time?

The original rationale for GDA was based on the growing realization that globally, the nature of change is such that governments are no longer the dominant drivers. The private sector, especially multinational corporations, is expected to fulfill social obligations that were previously the purview of government. The growing trend toward corporate social responsibility creates new opportunities for collaboration with the private sector to achieve development goals. In Kosovo, international donors and local small businesses constitute

much of the private sector. While there is recognition of the need for foreign direct investment in any discussion of long-term growth, the continued lack of resolution of its political status, among other things, continues to make Kosovo a challenging environment for large scale or long-term business investment.

A key factor that would argue for a GDA approach in Kosovo is the realization that even with the accomplishment of its current political and economic goals, Kosovo would remain vulnerable to external shocks associated with today's global economy. The energy sector in Kosovo has the potential to serve as a solid base for export as well as to meet energy needs for business operations in Kosovo, if it were developed in the right policy environment. As a legal and regulatory regime are put in place, the international donors also concur on the need for foreign investment, other than from the international donor community. However, there is insufficient donor coordination to put together a creative combination of international organizations that together can provide legitimacy and security, to provide "credible commitment," to firms that might wish to invest in Kosovo.

The GDA approach offers a solution precisely to such a scenario—the solutions centers on a creative look beyond USAID's traditional partners to human, technical and financial resources in other governmental and inter-governmental agencies, universities, business associations, chambers of commerce, the business sector and civil society, to seek out combinations of partners that can promote jointly shared goals. This requires considerable time for dialogue and advocacy with various development actors in Kosovo. It also draws on USAID's strengths as a convener and facilitator of development.

III. Potential for GDA Approach in Energy

A. Any discussion of long-term economic development in Kosovo must focus on attracting substantial foreign direct investment in the sector. At least eight factors listed below define the Kosovan context in ways that argue for a GDA approach to addressing Kosovo's long term economic development.

1. Kosovo's low sulphur lignite coal resources are easy to access and capable of producing low cost, long-term and reliable supplies of electricity for its own use as well as for export.
2. Kosovo is located at the center of the Southeast and Central and Western Europe electricity grid, which is now being integrated into the EU grid. Thus Kosovo is well positioned for export of electricity to countries in Southeast Europe.
3. Kosovo (with UNMIK and PISG representation) has initialed the Southeast Europe Energy Community Treaty (on 22 March 2005), which links it more directly to the European Union and associated regulation. In July, the Treaty will be officially signed and come into force.
4. There is a growing market for energy in the region, and surrounding countries are expected to face an energy deficiency, while Kosovo faces a low-cost option for energy generation.
5. Kosovo is land-locked, small and surrounded by unfriendly neighbors, so distinguishing itself as a free trade and investment regime is worthy of pursuit.
6. The World Bank has also identified the energy sector as a key engine for Kosovo's long term economic development, and discussions with World Bank staff in Kosovo as well as plans for the next WB technical assistance project (ESTAP-III) envision support to the energy sector that would complement USAID's alliance building work and promote foreign direct investment in the energy sector.
7. The value chain for the presence of foreign investment in electricity potentially extends to other areas of development that are of interest to USAID such as human resource development, educational benefits, infrastructure development and other linkages to global society.

8. While current programs of USAID are essential to institutional development that will support the energy sector in the future, these programs alone are not sufficient to assure long term growth for Kosovo, even if all the objectives are met.
9. Kosovo's economy comprises mostly small trade that will not be competitive in a global economy. Short-term credit and a small domestic market as well restricts the potential for expansion to benefit from economies of scale.

The Proposed Alliance

The Alliance aims to attract foreign direct investment to revitalize the energy sector, especially the generation, distribution within Kosovo and export of electricity.

The Alliance is conceptualized over a five year period. USAID will work with its contractor partners, relevant ministries of the provisional government of Kosovo (PISG), and the international donor communities. Kosovo is exceptional in that the PISG budget, as well as all major investments to date (since 1999), have been exclusively made by the international donor community. Thus, multiple partners in the donor community and ministries of the PISG are stakeholders who must engage in a coordinated fashion to attract FDI. (Neil, will Pierce Atwood be the group that submits the proposal for this? Then we should identify them as the convener, similar to DAI in the Proctor and Gamble example.)

Key elements of this proposal have already been discussed with the World Bank. The interest of MIGA and the IFC as potential guarantor and investor provide assurance of consideration to the social safeguards that are of concern to USAID. The World Bank's specific role is defined in terms of financial support for environmental and social impact assessments, among other things. MEM and MFE have also agreed in principle, and USAID will have to pursue specifics with them. The achievement of the goal of attracting and retaining good capital in the form of foreign direct investment is carried out through the collaboration of multiple partners whose various roles will be identified and tracked through a matrix being developed by The World Bank.

USAID's role within the broader matrix of collaborators toward attracting FDI through "credible commitment" to attract and protect FDI may be described in three parts.

First is to support a unified and consistent FDI policy. Current USAID activities in development of legal and regulatory regime are drawn upon to advocate for a policy concerning FDI. USAID will also contribute to the substance of this policy through advocacy for an open economy, rule of law and protection of "good" capital. Capital is considered to be "good" when it operates in a way that protects human rights and environmental safeguards.

The second set of activities is associated with launching the "one voice," unified statement of credible commitment to FDI. This meeting is to be convened by the World Bank. The meeting is intended to capitalize on international investor attention to the low cost nature of Kosovo's energy, substantiated by a detailed study to be released in late April.

The third set of activities has to do with ensuring that energy regulation is specifically and clearly supportive of and consistent with "credible commitment."

The matrix below begins an elaboration the interaction of USAID's activities with that of other partners over the proposed five-year period of the Alliance. It will be elaborated upon and clarified over time and in additional discussion with the many critical partners.

	October 1, 2005	October 1, 2006	October 1, 2007	October 1, 2008	October 1, 2009	2010-2012
	Year One	Year Two	Year Three	Year Four	Year Five	Beyond
PRIVATE PARTNERS						
Bankers		Risk management and mitigation plan		Due diligence of awardee	Commercial credit	
Contractors for MEM		Finalize engineering studies and prepare tender		→		
		Environmental and social impact assessments				
Potential investor companies		Financial and non-financial risk assessments	Investors' meeting	Investment infrastructure; Training; Business procurement →		
PUBLIC PARTNERS						
MEM, MFE	Open economy: Legal and regulatory environment; Guarantees of protection of “good” capital through right policy environment.	Prepare tender and announce for bids.	Bid negotiations and award	Implementation Agreement Continued protection of capital →	Concession agreement, Financing plan Maintain open economy →	

USAID	<p>Consultation with interested investors: assessment of what is required.</p> <p>Influence, advocacy and support for statement of “credible commitment” through current programs.</p>	Advocacy for credible commitment and its requirements with PISG through existing contractor work in D&G and EG—legal and regulatory framework in place.	<p>Promote/facilitate open competition for investor meeting</p> <p>Support investors’ meeting</p>	<ul style="list-style-type: none"> Train local business associations and coordinate with companies to establish sourcing and procurement systems that promote local economic growth. <p>—————→</p>	
World Bank	<p>* Develop matrix of stakeholders and timeline of activities required to attract foreign investment.</p> <p>* Convene meeting of donors and PISG</p>	Advocacy for credible commitment	Convene meeting of investors	<ul style="list-style-type: none"> Monitoring social and environmental impacts 	
IFC			<p>Public investment</p> <p>Social safeguards</p>		
MIGA			Political risk guarantees		
EAR					
UNMIK					

* The World Bank has approached these partners in general; USAID to approach them about specific GDA approach.

Partners: Pierce Atwood, MEM, MFE, WB, MIGA, IFC, EAR, etc.

Role of the private sector: While GDAs generally seek to enlist non-traditional partners, particularly in the private sector, in this instance, it is important to note that the private sector's participation is controlled in ways that ensure there is no conflict of interest or unintended competitive advantage provided to any one investor. Thus, over the five-year period projected for this alliance, private sector contributions will be visible at specific points as the Alliance progresses in its work.

(NEIL—need your guidance on how to handle this.)

GDA Funds ?? How to talk about this?

--Can seek out OSI funds, if necessary, but key players remain the international donor community and the PISG.

--FDI as the private sector's contribution?

--While much of this work can be integrated into the workplans of existing contractors, there is currently no energy component to those scopes. Funding would be involved to allocate time for the advocacy, planning and other coordination work of USAID.

Estimated leverage, greater than 1:1.

Other Options in Energy

Feronikel

Since bids are already underway for *Feronikel*, one option is to work with the winning bidder and other interested international organizations to develop a GDA-type alliance for development programs in the area of the mine. These could be complimentary to and linked with other assessments in connection with mine operations. Activities could complement those planned by the World Bank under ESTAP-III, and in conjunction with business contribution.

IV. Other possible GDA alliances

In addition to the energy sector, the consultant was asked broadly to note other potential GDAs that might become evident. Several came up in the course of discussion about GDA. Those are noted below.

1. Amoropa Flour Mill

Partners: Amoropa Flour Mill, USAID, Wheat Farmer Associations, (?)Lending bank?

Amoropa Flour Mill, a Swiss company that operates flour mills in several neighboring countries, has offered an investment guarantee of E20 million in connection with its purchase of a Kosovar flour mill from which it plans to sell bread(?) or flour(?) locally. Currently flour for bread-making is imported. However, the company needs to have farmers growing wheat on a far larger scale than they are at present in order to profit from mill operations. Farmers are also not organized in ways that can facilitate training in growing techniques, agricultural credits and other supports that the company is willing to offer or obtain for the farmers to encourage a reliable supply of wheat. Although there is some fallow land, sufficient land and farmers who are willing and able to produce wheat need to be identified.

This Alliance builds on an earlier (2000) project of USAID, which demonstrated the viability of wheat in Kosovo. Wheat production increased by 49% as a result of interventions introduced during that project.

The proposed project would combine the facilitative capacity of USAID to organize farmers to enter into dialogue with the company. USAID investments could be leveraged with company resources (farming inputs) at greater than a 1:1 ratio.

Partners: Amoropa, wheat farmers associations, USAID/KSBC. Other potential partners are local government agencies and others yet to be determined.

Next Steps

- Engage in discussions with Mill to learn more details about their potential contributions and expectations. Inform them about USAID's GDA approach.
- Carry out further discussions with KCBS (Rick Sullivan) about the potential and resource requirements for a new cluster of wheat farmers.
- Convene relevant parties from the mill, KCBS and farmer community to reach agreement about who will contribute what toward what end. This will form basis of MOU or equivalent.

2. Dell and a call center

Two member of the American Chamber of Commerce in Pristina are operating call centers. Dell has been contacted with the proposal to move some of its call center activities to Pristina as there is considerable language capacity here to service the region. Dell has also been approached about using Pristina for distribution of its computers within the region. Right now Dell distributes to Eastern Europe from Ireland. Dell representatives have expressed interest, but further discussions are required.

Partners: Dell, AmCham, two local companies—one woman-owned, USAID.

Next Steps

- Work with Rob Gulick to develop a concept paper and preliminary budget based on his work with Dell and member companies in connection with the call centers.

3. Alternative Dispute Resolution

As Kosovo will soon have a mediation and arbitration law, an ADR program may be set up with local bar association or association of judges. There is considerable experience with such programs in other parts of the world. Such a program could be sustainable in 18 to 24 months. USAID funding would cover mediation and arbitration training.

Partners: Associations of lawyers or judges and USAID.

Next Steps

- Identify potential partner; begin discussions.
- Enlist proposal.

4. Remittances

Kosovo receives remittances that amount to greater than 600,000 Euros per year. These remittances usually are made through Western Union with very high transaction costs. There is substantial potential to draw from the experience of other countries to devise a strategy for Kosovo as well. UNDP has already done some analysis on remittances in Kosovo and even explored the use of online transactions, but never actually implemented a program. These studies and efforts need to be reviewed in crafting a new strategy.

- Complete research and explore options such as local bank/credit union; community foundations, online mechanisms, or other means for reducing transaction costs of remittances.
- Work with partners to identify development strategy—infrastructure, research center, etc.
- Develop proposal

V. Recommendation and Conclusions

Regarding GDA in Kosovo

The relevance of GDA is not readily apparent in Kosovo because of the unusual circumstances of its management, and the dominance of international organizations. It is therefore critical that more effort than the usual be allocated to the introduction, discussion of and support for private entrepreneurship. USAID's technical and financial support for greater alliance building between the public and private sectors must also be made known. GDA should consider incentive funds and resources for education about GDA. This would involve a cross section of key actors using different approaches with each group. Potential targets for these discussions/seminars/workshops are:

- PISG ministries
- Business community: Association of Kosovo Businesses; Women's Business Network; American Chamber of Commerce; KCCB clusters; representatives of businesses like the flour mill, etc.
- University and academic community, including lawyers, judges and other professionals.
- International donor community.

GDA presence would also benefit the upcoming public-private sector dialogue process initiated by the KCBS. Such an initiative would boost understanding of the importance of the open economy and good capital protection behind the proposed credible commitment. After such a long period of domination by international organizations, USAID's commitment to promote private entrepreneurship also serves to facilitate a political transition as the status assessment approaches in June.

Kosovo provides a unique and exceptionally challenging context, not only because of its unique geographic context, but also the dominance of international donor organizations for such a long period of time. That alone argues for special challenges in communicating USAID's commitment to entrepreneurship and self reliance, as well as recognition of the inter-dependent nature of Kosovo's economy in a globalized world.